

**MINUTES OF THE REGULAR MEETING
OF THE BOARD OF DIRECTORS
OF THE BETHLEHEM AUTHORITY**

MAY 13, 2010

The regular meeting of the Board of Directors of the Bethlehem Authority was held on May 13, 2010 in Conference Room B504, 10 E. Church Street, Bethlehem, PA. The meeting was called to order at 3:30 PM by Chairman Mark Jobes, with the following also in attendance:

John Tallarico, Vice Chairman
Richard Master, Secretary – participating by telephone
Vaughn Gower, Treasurer
James Broughal, Esq., Solicitor
John Filipos, CPA, Controller
Stephen Repasch, Executive Director
Sandra Reppert, Administrative Assistant
Daniel Meixell, Special Officer

APPROVAL OF MINUTES

Chairman Jobes presented the minutes from the regular meeting held April 8, 2010 as circulated. Mr. Gower moved to approve the minutes. Mr. Tallarico seconded. Motion passed unanimously.

RECOGNITION OF VISITORS / COURTESY OF THE FLOOR

- Mr. Jeff Andrews, City of Bethlehem, Superintendent of Water Supply and Treatment
- Mr. Dave Brong, City of Bethlehem, Director of Water and Sewer Resources
- Mr. Stephen Antalics, Bethlehem Resident
- Mr. Bud Cook, The Nature Conservancy
- Mr. James Halleman, Bethlehem Resident and currently enrolled in the Bethlehem Citizen's Academy

REPORT OF THE CHAIRMAN

Investment Policy Review. Chairman Jobes reported that the Authority's financial advisor, PRAG, was contacted after he questioned if the banking industry and markets changed enough to revise the Authority's investment policy. His question arose last month following a CD investment bid. Based on the relatively small difference in yield and continued financial market risk, PRAG recommended continuation of the current policy.

Wind Energy Developer Evaluation. Chairman Jobes reported that Broadlands Financial Group, the Authority's wind energy consultant, has established a set of criteria to analyze all the developers consistently via an RFP it will prepare. Broadlands was also asked to look for other qualified developers to broaden the Authority's opportunities. Once the RFP's are received and reviewed, it can be decided which of the proposals are most appropriate. Then meetings can be held with the most qualified in order to determine the most effective candidate.

Mr. Repasch said Broadlands provided an outline for the Authority on how to get through the entire process. According to Broadlands report received this morning, they will provide the Authority up to four additional interested developers, some of which will be North American companies.

Chairman Jobes said this is a long, multi-year process. After choosing a developer, studies need to be performed to see where wind turbines would potentially be sited. The very first step is putting test equipment in place to gather data to measure the amount of wind at the different sites and see if a wind project is even feasible. Wind maps indicate there is enough wind for about 36 turbines in total.

Mr. Gower said he wanted to advocate the continuation of Broadlands. Their involvement helps the Board to be more educated about the wind energy business. There was a story on the Bloomberg Newswire today about how China has tremendously increased the amount of wind production, and as a consequence, developing its own turbines and not buying them from international companies, which has put the international companies' business prospects in a bit of a downturn. This is an example of how international events that we don't know about can affect the relationships we have with the people we would ultimately do business with. This is why we need someone who knows the wind energy business to help us.

Mr. Repasch said Broadlands proposed to help the Authority through this process at a cost of \$11,200. He and Mr. Gower discussed this and it was decided to try to negotiate a lower price because the Authority can do some of the work, at least till the point of selecting a developer. Broadlands memo indicates some timelines to keep the process moving. Spring is the most opportune time to place the met towers and fall is next best. It is doubtful there will be any kind of agreement by the fall, so the soonest any wind studies would be done on site is next spring, if such agreement is reached.

Mr. Master said he supports Broadlands. He is very satisfied with their work to date. They have the expertise and are doing an excellent job. They have set up a good format for evaluating the strength of various developers who could provide a turn-key project to the Authority.

Mr. Tallarico said it is important that the Board weigh in and provide its own comments in the RFP's.

Mr. Repasch said Greg Fuller from Iberdrola Renewables recently contacted him to again invite any Board members or interested water department staff members to tour Locust Ridge Wind Farm. The best available weeks would be next week or the first week in June. Mr. Master hasn't seen Locust Ridge, but while recently in China he toured a wind farm. He said Mr. Gower was right that China is very aggressive about alternative energy.

Working Woodlands Program. Chairman Jobes said the Working Woodlands Program (WWP) is another major initiative the Authority is studying and working on simultaneously with The Nature Conservancy (TNC). There was a meeting two weeks ago with TNC to understand this program better, talk about the Authority's concerns and discuss their proposal further. A major concern for the Authority is restricting use of the land or lands for 60 years. The Consulting Engineer was asked to look at the Tunkhannock Watershed, which is divided into upper, middle and lower sub-basins, and determine the feasibility of needing those lands for future water generation. The upper and middle were determined to be needed and the lower was determined not to be needed. If the Authority is going to proceed, it could start off with a parcel that is known to be needed for water uses and see how the future unfolds in connection with the restrictions. There were also questions regarding the effects this program would have on the value of the land. PRAG felt that the property value would increase because of the revenue stream generated by the carbon credits. The Authority forester was asked to contact some appraisers regarding values. Mr. Gower added it's not just the appraised value, but also if the bondholders feel they have more or less revenue security with an easement. PRAG was confident that the bondholders would have more security because the restrictions are a way of insuring that the revenue stream from the water is going to be enhanced by virtue of such an agreement. PRAG was going to check with bond counsel to see if his opinion was the same.

Mr. Repasch said Peter Carlucci, the Authority's bond counsel, contacted him prior to this meeting and concurred fully with PRAG's assessment that bondholders' interests are enhanced with the restrictions to preserve water production. Bond Counsel was also asked to look into the impact an encumbrance on Authority property would have on an operating authority. Peter Carlucci's opinion was it would not have a positive nor negative impact on creating an operating authority.

Chairman Jobes said the WWP ties into things the Authority is looking at. Considering the possibility of setting up an operating authority is one of them, the impact of anything done in the interim needs to be known. TNC has been asked some questions and we're still waiting to receive feedback. He feels the WWP is something that has a lot of positive features. However, it is the 60-year easement and trying to not impede future generations based on what is known or unknown today that must be clarified before we enter into an agreement. He appreciates all the time and effort that Mr. Gower has spent on this issue.

Discussion

Mr. Gower said everything about the WWP is good and positive. From the Authority's, City's and certainly the water user's standpoint, it is the dilemma of getting comfortable with having restrictions for 60 years or longer. It is hard to predict the future in this type of environment. We have to determine if we can get comfortable with this type of uncertainty.

Mr. Broughal said it would be appropriate for the City to weigh in on this at some point. It has been discussed what land will always be necessary for water production, but there are varying degrees of other land that may not be or less likely to be used for water production.

Mr. Master said there is also the political environment. The Authority needs City Council approval, and the Administration will comment one way or another. We should advise some Council members that this program is under consideration and get their opinions.

Chairman Jobes would like a meeting with Dave DiGiacinto and Eric Evans (Council liaison) to update them on the WWP, wind energy and other things the Authority is working on to get a sense if there is any major opposition. Feedback from Council and the City staff should probably be the next step, then look again at the different areas and decide collectively what makes the most sense.

Mr. Repasch indicated that Peter Carlucci said he believes the Authority does not need Council's approval, but the Authority would not do anything without Council's approval.

Mr. Brong said that from an operational standpoint, Wild Creek/Penn Forest is the primary watershed and will continue to be the City's main water producer for many years to come. It should be the highest priority in the WWP. Tunkhannock is debatable because it isn't used unless necessary, although there may be some financial benefit for inclusion. He sees no reason why the Authority would not consider the Wild Creek/Penn Forest area. From a time commitment standpoint, one can start to worry about land and market values in times of liquidation. Yet, there is the ability to generate incremental revenue through the WWP. He thinks these are the things that should be done to augment the revenue stream. There should be more concern about that in the short term rather than about the ability to liquidate land in the event of a fire sale.

Mr. Tallarico said this can be talked about all day long, but the areas should be targeted before going through all the semantics. People will want to know if the Authority's rights are being given up for 60 years. A lot of things can happen in that time period. Water generation is the number one job.

Mr. Gower was curious to know why Mr. Brong did not add the upper portion of the Tunkhannock Watershed to his statement earlier and queried if it has to be there for Plan B or C. Mr. Brong responded yes, absolutely Plan B. The water is not used today. The quality of the water should be preserved to insure it is there in the extreme situation when it is required. He would not worry greatly about including the lower Tunkhannock Watershed because downstream from the intake, the water is low in dissolved oxygen and degrades. Wild Creek/Penn Forest Watershed has to be first and foremost.

Chairman Jobes said the question remains whether to put all the land in the program or piece by piece. While the upper Tunkhannock Watershed might want to be included, it might not be right away. His opinion is to identify an area and start there.

Mr. Repasch said if the Wild Creek/Penn Forest Watershed is put in the WWP, the Palmerton Hunting and Fishing Club might also join. This would be a significant improvement to that area. Palmerton owns 1,000 acres in the watershed. For the record, Chairman Jobes said the Authority asked TNC to talk to Palmerton about the WWP. Palmerton is scared about what the Authority may do, and vice-versa. Perhaps TNC can use its influence to bring both parties together.

Mr. Gower said it is a great vision to try to accomplish. There could also be a provision for Palmerton to join the WWP later. Sometimes things get complicated when bringing in other parties, especially if timing is not the same.

Mr. Master said he is not opposed. He was concerned about valuation, and is glad PRAG and bond counsel were contacted. He is also encouraged by Dave Brong's comments about Wild Creek/Penn Forest being suitable for the WWP and is in favor of the next steps for that area. After that it would be the areas of Tunkhannock that are needed for water generation in the future.

Mr. Gower said we're spinning our wheels at this point. We're now exploring something that will lead to, among other things, all the terms and conditions, and that future work could even tell us that it would be a good or bad thing to include Tunkhannock in the initial agreement. But, to finalize our position we need something tangible to react to.

Chairman Jobes would like to keep moving forward unless there is major opposition to the program or the 60-year commitment. In the end, it's all based on the financial aspects and other terms and conditions discussed now.

Mr. Gower said we have to be careful that messages aren't being confused. The Authority is moving forward to explore what is possible, using a most likely scenario using the WWP.

Operating Authority. Chairman Jobes said this is an issue that has been discussed in the past, but not recently for various reasons. Now that we're studying some of these other programs, we need to know the impact on the ability to create an operating authority. At some point, it has to be decided, as a group, when to move forward. Timing is critical, there are many political aspects and it is unsure if this is the right time. Based on the revenue stream and the inability to recover the costs and expenses of the water system because of the PUC, it is appealing to get out from under the PUC to be able to determine our own rates to pay for the water system. Creating an operating authority is a long process, has many different aspects and is very complicated. There will be a lot of hurdles to get over. He thinks it would be good to have a meeting with Council members to get some initial feedback. There may be some opposition by some members for various reasons.

Mr. Gower said the Board stopped working on this issue due to the financial plan, refinancing and line of credit. It is appropriate to start again. Again, people need something tangible to grasp and facts to understand

Mr. Repasch indicated that Council President Donchez has said on more than one occasion that he is strongly in favor of exploring the option. In that regard, Chairman Jobes said to start identifying the issues that need to be evaluated and use PRAG to help guide us in what needs to be done.

Mr. Broughal said there should be a meeting with PRAG and bond counsel to determine what has to happen from now until becoming an operating authority. He doesn't believe that has been identified.

Mr. Gower said it has been, but we have to get beyond talking about it and begin documenting the criteria. Mr. Repasch added he will put together what has been developed in the past, and will add whatever necessary to build upon that. He and Mr. Master will work on this, but if the others want to get involved, that would be great.

Mr. Master said in past years, the Board did do a lot of work on this issue, but because there was never a consensus to move forward, the information was filed and it did not proceed. He is not sure if it will be productive this time, and maybe it should wait till the time is right. He is willing to spend time to review everything. The Board might want to get to the point of a proposal, debate it and decide its position. This is a major community decision and it needs consensus and education to everyone with public hearings and so on.

Chairman Jobs concluded that these are all good ideas and timing is a key factor, but the Board can at least begin working on it again.

REPORT OF THE EXECUTIVE DIRECTOR

Stand 50 Timber Sale Contract. Mr. Repasch reported that a timber sale contract was reached with Keith Walters and Sons Logging and Chipping Co. to harvest Stand 50. The amount of the proposal was \$42,300. The sales contract has been reviewed and agreed to by Mr. Broughal. He is requesting the Board's approval of the contract and terms thereof.

Chairman Jobs moved to approve the Stand 50 Timber Sales Contract with Keith Walters and Sons Logging and Chipping Co. in the amount of \$42,300. Mr. Gower seconded. Motion passed unanimously.

Forest Management Program Update. Mr. Repasch updated the Board on the Forest Management Program. The harvesting of the softwood plantation in Wild Creek is complete, and as indicated in Officer Meixell's report, the last truckload of logs left the area on Monday. Through the end of April, the revenue from this stand was ~\$27,500, and between then and now, ~\$4,000 more is expected. Glatfelter Pulp Wood bought the stand, but sub-contracted the work to Walters, who bid and won the Stand 50 sale. Walters has done a tremendous job. Also, last week an employee from Walters was talking to one of the Authority's detractors. A bird watcher has now changed his opinion to the timbering having a positive effect because he can see the birds better. The area looks really good and it will be retired next week. The trees had been very close together, but now the area has been thinned to about 100 trees per acre. He will email some pictures to the Board.

H2O PA Grant Application Resolution. Mr. Repasch reported the City is looking at additional projects for the water system to apply for another H2O PA Grant by the end of June. They are planning on submitting the relining of the 12MG reservoir behind St. Lukes and a valve repair project, both of which are in progress. Once there are better estimates on these projects, there will be resolutions to sign at the June meeting.

Mr. Gower queried if there are more valves in need of repair. Mr. Brong responded there is another pump station that needs work, there are valves that need to be moved, and some other issues.

Chairman Jobs queried the amount of the grant the Authority received last year. Mr. Repasch responded \$275,000 and it is a reimbursement grant. To date, we have been reimbursed \$12,000. Expenses can be incurred or spent and the reimbursement process is relatively quick.

Mt. Pocahontas Property Listing Agreement. Mr. Repasch reported that at the end of April, the listing agreement for the Mt. Pocahontas property with Robert Haas from Coldwell Banker expired. The agreement was extended for another year. This information was circulated via email and the action needs ratification.

Mr. Tallarico moved to ratify the extension of the listing agreement for the Mt. Pocahontas property with Coldwell Banker for an additional one year period. Mr. Gower seconded. Motion passed unanimously.

Judicial Property Sale in Monroe County. Because this is a real estate matter, it will be discussed in Executive Session at the end of the meeting.

Connectiv Easement Issue. Mr. Repasch referred this issue to Mr. Broughal to discuss.

Mr. Broughal indicated that his office has represented Connectiv Energy since their plant was sited and built in Bethlehem. Connectiv is being sold to a major Texas utility, and during this process an easement issue surfaced. There is an easement which runs along Applebutter Road to the Lehigh River, which is the source water for the cooling towers. The Bethlehem Authority has been identified as the owner of the property over which the easement runs. What wasn't known was many, many years ago, the deed to the Authority had a reverter clause which said that if the property was not used for a waste water treatment facility, it would revert back to the seller. This presents a problem for Connectiv because if that were to happen, it goes back free of easement. In addition, it's a problem for the Authority because it makes the land less valuable. It happens to be that the Bethlehem Steel sold the property to the Authority, so he requested to quiet the title on the easement and land for the Authority by eliminating the reverter clause because there is no one to give the land back to if it is not used for a waste water treatment facility. He filed the quiet title action with the court.

Chairman Jobes queried if the Bethlehem Steel's assets were purchased out of bankruptcy. Mr. Broughal responded no, this land was sold off in the 1930's & 40's.

Mr. Gower moved to authorize the execution of the quiet title action by the solicitor and the filing of same with the court. Mr. Tallarico seconded. Motion passed unanimously.

Arbitrage Report. Mr. Repasch reported that as a result of refinancing the 1998 bonds, PRAG and bond counsel advised to have an arbitrage report done, which was completed. There are some errors that need to be corrected. PRAG explained that it is a very complicated issue, but on August 19, 2013, there will be an arbitrage bill due of ~\$51,000. PRAG has looked at the face value versus market value of the 1998 and 2010 bonds, and they are trying to reduce the payment down to or close to zero. They need more information from the company that did the report and another opinion from bond counsel. It is hoped the final accomplishment can be presented to the Board next month. Mr. Repasch said the arbitrage report cost \$1,500 and PRAG already has accumulated ~\$2,000 in fees. This is money well spent if the arbitrage payment can be eliminated.

2nd Quarter 2010 Income/Expense Projection and Expense Budget Comparative.

Income and Expense Projection for the 2nd Quarter 2010:

- Cash on Hand at the beginning of the 2nd Quarter -- \$432,140.
- Revenues Receivable – \$98,505 for the 2nd Quarter.
- Total Projected Professional, Administrative and Police Expenses – \$104,165 overall for the 2nd Quarter.
- Total Projected Cash on Hand at the end of the 2nd Quarter – \$426,480.

Expense Budget Comparative for the 4 months ended April 31:

- Professional Services – \$21,657, 10% of budget. Another line item was created for Broadlands' consulting services for the wind energy evaluations. Chairman Jobses queried if we are current on the billings from our professional consultants. Mr. Repasch responded yes and that PRAG hasn't done much work until recently, so that bill won't be received until next month.
- Security and Property Expenses – \$8,873, 29% of budget. Chairman Jobses said the major property expense to date has been the access road improvements to Stand 50. Mr. Repasch added that in June or July there will be ~\$5,000 in expenses for roof repairs to the Wild Creek house.
- Administrative Expenses – \$75,911, 31% of budget.
- Overall – \$106,441, 22% of budget.

Mr. Gower said it appears the only item out of the ordinary is the cost of Broadlands' evaluation.

REPORT OF THE CONTROLLER

Mr. Filipos' report for the month ended April 30, 2010 was circulated, filed and accepted without comment. He noted that the Hirko debt service interest payment of \$93,661.25 was made on April 1.

Mr. Gower queried about the Lehman Brothers swap payment and reserving money. Mr. Repasch responded we've been receiving and paying invoices monthly since last November as if there was never an issue.

Resolution 315 – Approval of Professional and Administrative Expenses.

Chairman Jobses presented Resolution 315 to the Board for approval, which was circulated via email. The resolution totals \$66,619.84 and consists of the following:

- Requisition 304 - City's water capital invoice totaling \$38,658.34
- Professional and Administrative expenses totaling \$27,961.50

Mr. Gower moved to accept and approve Resolution 315 as presented. Mr. Tallarico seconded. Motion passed unanimously.

First Quarter Controller's Oversight Report. Mr. Repasch indicated that the City Controller just approved the report this afternoon. He did not have time to get it signed and emailed to the Board.

Mr. Filipos said that the report is typical. The City has never gone over the budgeted amount to take from the Water Fund, and they never take the money pro-rata. General Fund charges of \$1,370,000 out of a total \$2,240,000 were taken in the first quarter. Pension Fund charges of \$997,420 have not been taken yet.

Chairman Jobes queried if the \$382,000 that the City owes the Authority in overcharges and which is due by the end of June has been discussed. Mr. Repasch said that matter is referred to in this report, which the City received this afternoon. Chairman Jobes said the Mayor needs to be reminded about this. The Mayor wasn't aware that this wasn't paid. We need to know when the City plans on making the payment. Mr. Repasch said he will follow up on this.

REPORT OF THE SOLICITOR

Mr. Broughal said that with regard to quiet title action, there is no cost to the Authority. All costs will be paid by Connectiv Energy.

REPORT OF THE CONSULTING ENGINEER

Report has been filed and accepted without comment.

REPORT OF BETHLEHEM AUTHORITY SPECIAL POLICE

Officer Meixell's report has been filed.

Chairman Jobes queried if it makes sense to open up the lookouts at the reservoirs. Mr. Repasch responded that discussion took place during a Water Department staff meeting and asked Dave Brong to comment.

Mr. Brong said that from an operating standpoint, they don't necessarily see the value to ratepayers in doing that. The land outside the fence has been opened up to hikers, hunters, birdwatchers, etc. City workers are on the property to ensure no one is inside the fence. There would have to be an element of control, inventory, policies, and so on. He is not seeing value to doing that.

Officer Meixell disagrees, as does Robert Werts from the Northeast Regional Counter-Terrorism Task Force. There is no one watching the dams all day long. It is a very controlled fenced-in area. More eyes and ears would add to security and that makes sense. He's been in this business a long time. City workers, as well as himself, are spread out all day long. During the daytime, if someone else is there who sees something and can call it in and alert us makes perfect sense.

Chairman Jobes asked Dave Brong to consider Officer Meixell's comments in making any final decisions.

WATER REPORT

The Water Report for the month of April 2010, as circulated and filed, indicates there was a lot of rain for the month and the reservoirs are at 100% capacity.

CITY OF BETHLEHEM DIRECTOR OF WATER AND SEWER RESOURCES

Mr. Dave Brong reported the following on the Water Fund as of April 30:

- Receipts are ~\$5.5 million versus revenue plan of \$5.9 million,
- Invoicings are ahead of plan, but collection problems continue. The average receivables are ~\$1.4 million.
- Expenses are tracking reasonably well and ~\$80,000 under plan
- Bottom line ~\$400,00 behind plan. (Last month's deficit was over \$800,000 due to the General Fund charges being taken early, so this is erasing itself)

Mr. Gower queried about water shut-offs and if any are commercial. Mr. Brong responded they are residential, and there are more today than in recent history. Residents cannot live without water because the City will condemn the premises. If the water is shut off, they come in and pay the bill or work out a payment plan. User class consumption shows residential down 6%, industrial is down due to the economy, and bulk accounts are up slightly.

Mr. Tallarico queried if the City charges a fee to shut off water. Mr. Brong responded yes, \$35 plus late fees and penalties.

Mr. Brong reported that the work on the northeast standpipe at Northampton Community College should be completed by mid June. The inside has been refinished and there is equipment on site for blasting and repainting the outside. The 0.5MG Southside tank work will begin immediately following the northeast standpipe work.

OTHER BUSINESS

Mr. Repasch mentioned there are three good articles in this month's PMAA Authority magazine. One is on aging infrastructure in the water and sewer industry and the money needed to upgrade these systems. Another article relates to the banking industry and the transitions they're facing given the market problems from last year. Lastly there is an article on the Working Woodlands Program, written by Dylan Jenkins from TNC.

COURTESY OF THE FLOOR

Mr. Antalics said politically this is probably the best time to proceed toward an operating authority. Years ago, then-Mayor Cunningham did admit that the watershed was completely mismanaged. Brooks Forestry was brought in, who discovered there was a tremendous amount of timbering that was done but couldn't determine who got the money. Also, in the past he has commented about the three-legged stool relationship between the Authority, City and City Council and that the Authority should start proceeding towards an operating authority. Politically it is correct, and otherwise in its best interest.

Chairman Jobes thanked Mr. Antalics for his comments and added the money he referred to was never there. Mr. Antalics said six or seven years ago, he spent about one month in the Authority's office looking through records. Timbering was being done but he could not find the monies from it in the City or Authority budget. Money coming in couldn't be accounted for, but money was paid out. Brooks said it was incredible what happened in the watershed—100 acres of valuable timber, clean cut. He has a copy of the op-ed he wrote about six years ago and he will provide it to the Board.

Chairman Jobes said any timbering money that is received now goes directly to the City.

Bud Cook from TNC brought copies of the current PA TNC newsletter for the Board, which features an article on the relationship between forest conservation and water purity.

Chairman Jobes said as we move forward, he sees water becoming a more valuable resource. He hopes the Authority can benefit from the assets it has. To that, Bud Cook added there are fewer and fewer water providers that have the watershed lands that safeguard the water to the extent that Bethlehem does. It just does not occur the way it did half a century ago.

NEXT MEETING DATE

Chairman Jobes announced the next meeting is scheduled for June 10, 2010 at 3:30 PM. Please advise of any conflicts.

At 4:50 PM, the Board entered into an Executive Session to discuss a judicial sale in Monroe County. The session adjourned at 5:00 PM, and Chairman Jobes moved to authorize the Executive Director to bid not more than \$10,000 on the small parcel of land adjacent to Authority land, and on said parcel sits part of the hunting cabin owned by the Authority which is currently leased to Chestnut Ridge Hunting Club. Mr. Gower seconded. Motion passed unanimously.

Mr. Broughal mentioned that there will be an expense for a clean title search.

ADJOURNMENT

There being no further business, Chairman Jobes moved to adjourn the meeting. Mr. Gower seconded. The motion passed unanimously and the meeting adjourned at 5:05 PM.

Vaughn C. Gower, Asst. Secretary